



800 Boylston Street Boston, Massachusetts 02199

October 5, 2006

To: All Potential Suppliers

RE: 2007 Default Service RFP

NSTAR Electric (Boston Edison Company, Commonwealth Electric Company and Cambridge Electric Light Company) is pleased to announce the issuance of a Request for Proposals (RFP) soliciting offers to supply firm, load-following electric power to meet portions of NSTAR Electric's Basic Service (Default Service) obligations beginning January 1, 2007.

On December 30, 2005, the Massachusetts DTE approved a Settlement Agreement¹ in which NSTAR Electric agreed to procure a portion of Basic Service for Residential customers under contracts with one, two and three-year terms. Therefore, NSTAR is requesting multi-year supply bids for 2007, 2008 and 2009 in this RFP.

Complete information including supporting documentation and load data can be found on NSTAR's web site at http://www.nstaronline.com/business/energy_supplier/supply_wholesale.asp. If you have questions or require further information, please email energy_supply@nstaronline.com or phone Mike Swider at (781) 441-3241 or Thomas Purtell at (781) 441-8913. Thank you for your interest in the NSTAR Electric's RFP.

Sincerely

James G. Daly

James G. Daly
Director, Energy Supply

¹ D.T.E. 05-85

**BOSTON EDISON COMPANY,
COMMONWEALTH ELECTRIC COMPANY
AND
CAMBRIDGE ELECTRIC LIGHT COMPANY**

**REQUEST FOR PROPOSALS
FOR POWER SUPPLY FOR DEFAULT SERVICE**

For the Delivery Term commencing
January 1, 2007

October 5, 2006

**BOSTON EDISON COMPANY,
COMMONWEALTH ELECTRIC COMPANY
AND
CAMBRIDGE ELECTRIC LIGHT COMPANY**

**REQUEST FOR PROPOSALS
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**BOSTON EDISON COMPANY,
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AND
CAMBRIDGE ELECTRIC LIGHT COMPANY**

**REQUEST FOR PROPOSALS
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October 5, 2006

I. Introduction and Background

The Massachusetts Electric Industry Restructuring Act of 1997 (the “Act”) provided for competition in the electric utility industry by extending competition in the wholesale power supply markets to retail customers through the provision of retail access to all customers. The Act provided access for all retail customers of Boston Edison Company (“BECO”), Commonwealth Electric Company (“Commonwealth”) and Cambridge Electric Light Company (“Cambridge”) (together, “NSTAR Electric”) as of March 1, 1998. The Act requires each distribution company to provide Default Service to those customers who are not receiving generation service as part of the Standard Offer Service option or from a competitive supplier. The Act further requires Default Service to be competitively procured. In addition, the Massachusetts Department of Telecommunications and Energy (“DTE”) has conducted a generic proceeding on rules and procedures for the provision of and pricing of Default Service¹. As a result of that proceeding, the DTE ordered all electric companies in Massachusetts to procure Default Service through competitive solicitations by customer group (residential, commercial and industrial) and to procure such power at fixed monthly prices. In subsequent proceedings, the DTE again considered issues relating to the procurement of Default Service and the implementation of a congestion management and multi-settlement system within structured markets (Standard Market Design). In the first resulting order, the DTE considered the effects of congestion costs and locational marginal pricing (“LMP”) related to the procurement of Default Service. This order requires all electric companies in Massachusetts to procure Default Service supply on a load zone-specific basis and to establish separate Default Service prices for each load zone for large C&I customers². In a second order, the DTE has required distribution companies to procure Default Service supply on a quarterly basis for their large commercial and industrial customers.³

On December 30, 2005, the DTE approved a Settlement Agreement⁴ in which NSTAR Electric agreed to procure a portion of Default Service (i.e. “Basic Service”) for Residential customers under contracts with one, two and three-year terms.

The NSTAR Electric companies (BECO, Commonwealth and Cambridge) are each direct or indirect subsidiaries of NSTAR Electric and Gas Corporation, with a principal place of business at 800

¹ Default Service, D.T.E. 99-60 (1999) (Notice of Inquiry)

² Default Service, D.T.E. 02-40-A (February 13, 2003).

³ Default Service, D.T.E. 02-40-C (September 11, 2003).

⁴ D.T.E. 05-85

Boylston Street, Boston, MA 02199.⁵ NSTAR Electric is hereby issuing this Request for Proposals (“RFP”) to solicit and evaluate competing power supply offers from qualified power suppliers (“Suppliers”) to supply firm, load-following power to meet the Default Service requirements (as defined below) for each of the designated Residential, Commercial and Industrial customer groups on a load zone-specific basis for the Delivery Term. Although Suppliers need not provide bids for each customer group or for each distribution company, Suppliers must provide separate fixed monthly pricing for each of the customer groups and load zones bid upon. NSTAR Electric plans to award the power supply for Default Service by customer group and load zone based on the bids received and the best interests of its retail customers. In addition, proposals to serve less than 100% of the available load of a customer group or proposals to serve individual calendar months will also be considered.

For the purposes of this solicitation, the customers of Commonwealth Electric Company are within the Southeastern Massachusetts load zone (“SEMA”) and the customers of Cambridge Electric Light Company are within the Northeastern Massachusetts load zone (“NEMA”). The customers of Boston Edison Company are within both the SEMA and NEMA load zones.

In addition, for the purposes of this solicitation, the Commercial Customer Group includes small and medium commercial and industrial customers and streetlights, and the Industrial Customer Group includes large commercial and industrial customers. The customer groups are as follows:

Customer Group	Rate Classes
Residential	BECo rates R-1, R-2, R-3 and R-4; Commonwealth rates R-1, R-2, R-3, R-4, R-5 and R-6; and Cambridge rates R-1, R-2, R-3, R-4, R-5 and R-6
Commercial (including street lighting)	BECo rates G-1, G-2, T-1 and street lights; Commonwealth rates G-1, G-4, G-5, G-6, G-7 and street lights; and Cambridge rates G-0, G-1, G-4, G-5, G-6 and street lights
Industrial	BECo rates G-3 and T-2; Commonwealth rates G-2 and G-3; and Cambridge rates G-2 and G-3

⁵ It is noted that Boston Edison, Cambridge and Commonwealth have filed a request for DTE approval of a Plan of Merger among the three electric distribution companies. D.T.E. 06-40 (2006). A decision by the DTE is expected later in 2006. If DTE approval is obtained, Cambridge and Commonwealth would be merged with and into Boston Edison, effective January 2, 2007, which would thereupon be renamed NSTAR Electric Company. Pursuant to Section 11.2 of the Master Power Supply Agreement, upon consummation of the merger, any contracts entered into and executed by each of Boston Edison, Cambridge and Commonwealth pursuant to this solicitation would be assigned to NSTAR Electric Company.

II. Default Service Requirement

NSTAR Electric is soliciting offers for power supply, by load zone, to meet the needs of NSTAR Electric's end-use customers in the Commercial Customer Group, the Industrial Customer Group and the Residential Customer Group, who are taking service pursuant to its Default Service Tariffs. Default Service is provided to retail customers who are not taking service from a competitive supplier. Service to customers can be initiated by: (a) a customer notifying the applicable NSTAR company that it wishes to terminate service from its competitive supplier and commence Default Service; (b) a competitive supplier notifying the applicable NSTAR company that it is terminating service to a customer; (c) a competitive supplier ceasing to provide service to a customer; or (d) a customer moving into NSTAR Electric's service territory, who has not affirmatively chosen a competitive supplier.

The power supply solicited is to begin:

- (a) for the hour ending at 0100 Eastern Prevailing Time (EPT) on January 1, 2007 and to terminate on the hour ending 2400 EPT on December 31, 2007 (a one-year term) for 25% of the Default Service load for the Residential customer group;
- (b) for the hour ending at 0100 EPT on January 1, 2007 and to terminate on the hour ending 2400 EPT on December 31, 2008 (a two-year term) for 25% of the Default Service load for the Residential customer group;
- (c) for the hour ending at 0100 EPT on January 1, 2007 and to terminate on the hour ending 2400 EPT on December 31, 2009 (a three-year term) for 25% of Default Service load for the Residential customer group;
- (d) for the hour ending 0100 EPT on January 1, 2007 and to terminate on the hour ending 2400 EPT on December 31, 2007 for 50% of the Default Service load for the Commercial customer group, and;
- (e) for the hour ending 0100 EPT on January 1, 2007 and to terminate on the hour ending 2400 EPT on March 31, 2007 for 100% of the Default Service load for customers in the Industrial Customer Groups.

Suppliers may provide separate bids for any and all of these Delivery Terms. NSTAR will procure the lowest combination of contracts that satisfy its customers' needs. This may result in the procurement of all the outstanding Residential Default Service needs in all one-year contracts or a combination of two and three-year contracts.

Table 1: Bid Structure

Bid Blocks	Percent	Delivery Terms											
Industrial	100%												
Commercial	50%												
Residential 1	25%												
Residential 2	25%												
Residential 3	25%												
	Quarter	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Year	2007				2008				2009			

NSTAR Electric will consider only fixed price bids that can be evaluated on a fixed \$/MWh basis.

III. Delivery

The power supply for Default Service is to be delivered to the PTF within the NEMA and SEMA Load Zones, as appropriate for delivery to each customer taking default service. If, during the Term of this Agreement, the ISO switches from using Zonal Pricing to Nodal Pricing for the purpose of settling energy purchased to serve load, as defined by SMD, the power shall be delivered to the Node or Nodes, as defined by NEPOOL, appropriate for each customer in each Customer Group. NSTAR Electric will make arrangements for NEPOOL Regional Network Service, which provides for transmission over PTF, and Local Network Service from any applicable local transmission provider(s), which provides for transmission over non-PTF. NSTAR Electric will be billed by NEPOOL and the applicable local transmission provider(s) for these services. NSTAR Electric will pay these bills and collect the costs, along with its distribution costs, from its customers through its retail distribution tariffs. Any other transmission or distribution costs will be the Suppliers' responsibility.

IV. Nature of Service

The Supplier of Default Supply Service for each customer group and load zone shall be responsible for meeting a fixed percentage of the service requirements for NSTAR Electric's customers in the customer group and load zone taking such service. These service requirements include delivery, to the PTF within the NEMA and SEMA Load Zones, of the portion of the electric capacity, energy and ancillary services required to meet the needs of NSTAR Electric's ultimate customers pursuant to the terms of the attached Power Supply Agreement ("PSA"). Supplier shall be responsible for all transmission and distribution losses associated with delivery of energy from the Delivery Points to the ultimate customers' meters.

The Supplier of Default Supply Service shall provide NSTAR Electric's renewable energy obligations resulting from the Renewable Energy Portfolio Standards promulgated at 225 CMR 14.00 et seq. These obligations are for 3% of the load to be from qualified New Renewable Generation Sources for the period January 1, 2007 through December 31, 2007. For any Default Service Supply procured beyond 2007, the applicable Renewable Energy Portfolio Standards will be the obligation of the Supplier.

V. Expected Loads

Although NSTAR Electric's customers are free, at any time, to leave Default Service to take service from competitive suppliers and return to Default Service, some customers may be restricted from returning to their previous competitive supplier for a period of six (6) months after leaving that supplier's service, in limited circumstances, pursuant to the Department's decision in NSTAR Electric Company, D.T.E. 05-84 (2006). Potential bidders should review NSTAR Electric's Terms and Conditions for a more detailed explanation of NSTAR Electric's policy for reducing volatility in the volume of Industrial Default Service load, with the understanding that these Terms and Conditions are subject to change from time to time as approved by the DTE.

To assist Suppliers in determining the potential load requirements NSTAR Electric will provide the following information electronically via the NSTAR's web site at http://www.nstaronline.com/business/energy_supplier/supply_wholesale.asp:

- ❑ A copy of this RFP
- ❑ A copy of the Master Power Supply Agreement
- ❑ Aggregate historical hourly Default (Basic) Service load (including losses) by customer group, by distribution company, for the period January, 2001 to September 2006; and
- ❑ Aggregate historical hourly Standard Offer load (including losses) by distribution company, for the period January 2001 to February 2005; and
- ❑ Copies of the latest available DOER-110 reports showing the number of Default Service customers enrolled and energy consumption at retail by rate schedule.

NSTAR Electric cautions Suppliers that the information provided reflects NSTAR Electric's customers' past performance and is not a measure of future performance. It is understood and agreed that NSTAR Electric shall have no liability or responsibility to any entity resulting from the use or reliance upon any such information. Suppliers are responsible for forecasting their obligations on an hourly, daily, and monthly basis. However, NSTAR Electric will provide Suppliers with certain information to facilitate the projection of load requirements. Such data includes the history of energy and peak Default Service load, with periodic updates to such information.

Suppliers may not limit the amount of power supply that may be purchased by NSTAR Electric, but may elect to bid a percentage of the load that the Supplier will serve for a particular customer group or load zone. Proposals that contain limits on the amount of power supply to be provided will be rejected.⁶

The amount of power supply for each customer group or load zone to be supplied by the winning Supplier(s) will be determined in accordance with the procedure contained in ARTICLE 6 of the proposed Power Supply Agreement, a copy of which is provided in Appendix A.

VI. Proposals

Each Supplier shall submit a proposal, signed by an authorized official of the Supplier, containing the bid price information required in Appendix B. Appendix B will be provided electronically. In addition, proposals should contain explanatory, descriptive and/or supporting materials as necessary. Each proposal must specify the price at which the Supplier will provide Default Service for each customer group and load zone. Purchases will be made on an "as-delivered" energy basis with prices stated on a fixed, \$/MWh basis. Prices may vary by calendar month, but must be uniform for the entire calendar month and cover the entire Delivery Term selected by the Supplier. In addition, prices should not contain demand components or vary by time-of-use within a calendar month. Bids that contain minimum purchase requirements will be rejected. Suppliers shall specify a price for each customer group on which it bids. The price for each customer group or load zone may be different.⁷ Each proposal shall include the following:

⁶ For example, a Supplier offering to supply the residential customer group in the NEMA load zone must agree to supply a fixed percentage of the needs of that group. The Supplier may not offer to serve a fixed percentage of the residential customer group in the NEMA load zone with the condition that the amount of service purchased does not exceed a specified MW level in any given hour.

⁷ For example, a Supplier may bid to serve the residential customer group in the SEMA load zone at X¢/kWh, the commercial customer group in the SEMA load zone at Y¢/kWh and the industrial customer group in the SEMA load zone at Z¢/kWh for the month of July 2006. For the month of August 2006, a Supplier may bid to serve the

1. Corporate history and most recent annual report;
2. Initial (if founded within the last ten years) and current capitalization;
3. Certified financial statements, including balance sheets and statements of income and cash flow with respect to the two previous fiscal years and the most recent interim period; and
4. Forms 10-K and 10-Q, submitted to the United States Securities and Exchange Commission for the two previous fiscal years, if applicable.
5. In the alternative; similar documentation for Supplier's parental entity in the event Supplier intends to rely on such entity to guarantee performance.

VII. NEMA Locational Forward Reserves and Local Second Contingency Charges

Within the time period for delivery under this RFP, Suppliers will have the responsibility for the delivery of Locational Forward Reserves (LFR) and Local Second Contingency Net Commitment Period Compensation (NCPC) associated with the Default Service. Because of uncertainty regarding future LFR and Local Second Contingency NCPC requirements in the NEMA load zone at this time NSTAR will allow bidders to place bids under which all LFR and Local Second Contingency NCPC charges would be a direct pass-through of actual costs. Suppliers are asked to make separate proposals: a) with the Suppliers taking responsibility for LFR and Local Second Contingency NCPC costs in NEMA, and b) with NSTAR Electric responsible for reimbursing supplier for LFR and Local Second Contingency NCPC costs allocated by ISO-NE to the Default Service Load being served in NEMA.

VIII. SEMA Local Second Contingency Charges

Due to recent trends in NCPC reliability charges associated with wholesale load in the SEMA Load Zones, NSTAR Electric will allow bidders to place bids under which all Local Second Contingency NCPC charges would be a direct pass-through of actual costs. Under this structure the Supplier would be reimbursed by NSTAR Electric for all documented charges by ISO-NE associated with the exempted product. Suppliers are asked to make separate proposals: a) with the Suppliers taking responsibility for the charges in SEMA, and b) with NSTAR Electric responsible for reimbursing supplier for the Local Second Contingency NCPC costs in SEMA allocated by ISO-NE to the Default Service Load being served.

residential customer group in the SEMA load zone at A¢/kWh, the commercial customer group in the SEMA load zone at B¢/kWh and the industrial customer group in the SEMA load zone at D¢/kWh.

IX. Terms and Conditions

A winning Supplier(s) will be selected to provide Default Service to each of the customer groups and load zones during the term covered by this RFP. Each winning Supplier will provide Default Service to NSTAR Electric in accordance with the terms and conditions of the Power Supply Agreement. The winning Supplier(s) will be required to have in place the applicable executed Power Supply Agreement(s) and Confirmation within twenty four (24) hours of being notified that it has been selected as the winning Supplier. Should a Supplier request NSTAR Electric to consider any changes to the Power Supply Agreement, such request should be presented as a mark-up to the PSA to NSTAR Electric by 4:00 pm EPT on Friday, October 13, 2006.

X: Supplier Requirements for Default Service

Each Supplier must obtain all necessary regulatory approvals required to enable it to provide the applicable service prior to January 1, 2007.

Each Supplier responding to this RFP must meet certain conditions, including but not limited to:

- A. Each Supplier must be a member of NEPOOL and have a settlement account established with the NEPOOL billing system throughout the term of the period covered by this RFP;
- B. Demonstrate ability to comply with NEPOOL and ISO requirements;
- C. Demonstrate the ability to access resources sufficient to supply the amount committed (not be to be construed as requiring a potential supplier to hold title to power required at the time of the proposal);
- D. Demonstrate that it has the financial resources to perform its obligations. Further, Supplier shall be required to provide financial assurances and instruments satisfactory to cover NSTAR Electric's replacement power costs in the event of Supplier default including a Letter of Credit in the amount required by the terms of NSTAR's credit policy, prorated to the amount of Load supplied and adjusted for the credit rating of the Supplier. See Attachment 1 of this RFP for Credit Limits;
- E. Demonstrate its own experience and qualifications (not that of its affiliates or special purpose entities) to provide the amount and type of power offered;
- F. Commit to assisting and cooperating with NSTAR Electric in any regulatory or judicial process relating to the proposed purchase, at the Supplier's expense;
- G. Demonstrate the ability to meet the labeling and disclosure requirements of the Massachusetts legislation for all resources bid.

XI. Retail Customer Relationships

All customers taking Default Services covered by this RFP will remain retail customers of NSTAR Electric. As the retail provider, NSTAR Electric will bill customers for the service provided and will provide customer service to all customers taking Default Service. NSTAR Electric will use reasonable efforts to provide notification to the Supplier(s) of Default Service of significant change in the volumes of customer enrollments and terminations within a customer group.

XII. Right to Reject/Select Supplier

Although it is NSTAR Electric's firm intent to select Suppliers as a result of this RFP, NSTAR Electric shall have the exclusive right to select or reject any and/or all of the proposals submitted at any time, for any reason and to disregard any submission not prepared according to the requirements contained in this RFP. Further, NSTAR Electric expressly reserves the right, in its sole and absolute discretion, to seek clarifications of any submissions, to negotiate to seek modifications to any submissions, to unilaterally change the schedule described herein or modify any of the rules and procedures set forth herein or any other procedures, to terminate the process described herein, and to invite any (or none) of the Suppliers to participate further in the process, all without prior notice to other potential parties.

A person's or an entity's preparation for this process, submission of information in response to this RFP, or participation in this process shall not operate to vest any rights in that person or entity or to create any duties or obligations for NSTAR Electric.

All submissions shall constitute an offer to sell to NSTAR Electric Default Supply Service to each customer group and load zone and such offer shall be required to be held open until the earlier of 5 p.m. EPT on October 20, 2006 or the date on which such offer is either accepted or rejected. Pricing contained in such offer may not be changed or withdrawn during this period.

XIII. Regulatory Approval

The obligations of NSTAR Electric and Supplier Seller under any Transaction Confirmation and the Master Agreement executed pursuant to this solicitation with respect to any transaction having a Delivery Term of greater than twelve (12) months are subject to the fulfillment and satisfaction of the following conditions, which may be waived (in whole or in part) only in writing by NSTAR Electric: the issuance by the DTE of an order or approval reasonably satisfactory to NSTAR Electric, in its sole and complete discretion, approving: (i) the Transaction Confirmation and the Master Agreement, pursuant to G.L. c. 164, § 94A; and (ii) any Default Service tariffs that are implemented as a result of the Transaction Confirmation and the Master Agreement, pursuant to G.L. c. 164, § 94, if any. NSTAR Electric agrees to act expeditiously to obtain the DTE's approval within five (5) business days of the filing of the Master Agreement and Transaction Confirmation with the DTE, as may be required. Following receipt of such order, NSTAR Electric shall issue a written notice to Supplier stating the aforementioned condition has been satisfied, and stating the date for Commencement of the Default Supply Service. In the event that the DTE approval is not obtained within the five (5) business day period set forth in this paragraph, the Transaction Confirmation executed as a result of this solicitation shall be null and void and of no legal effect.

XIV. Process and Schedule

A. Schedule

NSTAR Electric intends to adhere to the following schedule, although it reserves the right to modify the schedule at any time at its sole discretion.

Issue RFP	October 5, 2006
Requested revisions to PSA due	October 13, 2006
NSTAR response to revisions due	October 16, 2006
Initial Proposals due	October 19, 2006 at 4 p.m. EPT
Final Bids Due	October 20, 2006 at 10:30 a.m. EPT
Award Group Selected	October 20, 2006
Contracts finalized	October 20, 2006
DTE Approval for 2 and 3-year Contracts	October 27, 2006
Power Supply begins	January 1, 2007

B. Communications

All communications regarding this RFP must be in writing and may be made by hand delivery, fax or E-mail, addressed to:

NSTAR Electric & Gas Corporation
Electric and Gas Energy Supply
One NSTAR Way, NE220
Westwood, MA 02090-9230
Attn: James G. Daly (781) 441-8258
Mike Swider
Tom Purtell

Fax: 781-441-8066

E-mail: energy_supply@nstaronline.com

Proposals that have been e-mailed or faxed must also be delivered by mail or by hand by October 23, 2006.

If you have any questions please call either:

Primary Contact: Mike Swider (781)-441-3241

Alternate: Thomas Purtell (781)-441-8913

C. Confidentiality

NSTAR Electric agrees that it shall use commercially reasonable efforts to treat the non-public information it receives from Suppliers in a confidential manner and will not, except as required by law or in a regulatory proceeding, disclose such information to any third party or use such information for any purpose other than in connection with this RFP; provided, that, in any regulatory, administrative or jurisdictional proceeding in which confidential information is sought, NSTAR Electric shall take reasonable steps to limit disclosure and use of said confidential information through the use of non-disclosure agreements or orders seeking protective treatment, and shall inform the Supplier if confidential information is being sought. Notwithstanding the foregoing, in any regulatory proceeding in which such confidential information is sought and a request for confidential treatment is made to the DTE, NSTAR Electric shall not be responsible in the event that it is determined that the request for treating information in a confidential manner is not warranted. The Supplier shall be required to use commercially reasonable efforts to treat all information received from NSTAR Electric in a confidential manner and will not, except as required by law or in a regulatory proceeding, disclose such information to any third party.

D. Evaluation

Proposals will be evaluated on the following bases:

1. Lowest evaluated bid price by customer group and load zone;
2. Responsiveness to non-price requirements; and
3. Risk relative to price and ability to serve the load.

In evaluating bid prices, NSTAR Electric will weigh monthly bids on a net present value basis using a forecast of the monthly Default Service load. In addition, while preference will be given to conforming bids, NSTAR may, at its discretion, review and select non-conforming bids.

Attachment 1

Table of Credit Exposure Limits

This table sets forth the maximum unsecured credit exposure that NSTAR may have to any individual entity based on its credit rating tier. For entities that are guarantors of counterparties, the maximum exposure is the lesser of the amount of the guaranty or the Rating Limit set forth in this table.

Tier	S&P Rating	Moody's Rating	Internal Rating	Rating Limit
1	AA- or Higher	Aa3 or Higher	AA- or Higher	\$50,000,000
2	A+, A	A1, A2	A+, A	\$40,000,000
3	A-	A3	A-	\$35,000,000
4	BBB+	Baa1	BBB+	\$30,000,000
5	BBB	Baa2	BBB	\$20,000,000
6	BBB-	Baa3	BBB-	\$10,000,000
7	Below BBB-	Below Baa3	Below BBB-	Security Required